



GLO Changes to GLO-1/2/3 Reporting



**DRAFT – FOR REVIEW ONLY. NOT TO BE IMPLEMENTED
UNTIL PRODUCTION YEAR/MONTH JANUARY 2011.**

Changes to General Land Office Reporting Requirements

The BIG CHANGE: the General Land Office is implementing Texas Railroad Commission (RRC) level reporting. This is being done to enhance compliance checking and improve cross checking of payments to production reports. This is a major change for all reporting companies and the GLO has worked with several companies, ranging from paper filers to the largest user groups, to review the proposed changes and receive feedback. As a result of that input, we have refined our new reporting specifications and these are ready for industry-wide review.

Additionally, the GLO is planning to implement a Reporting Control System similar in core functionality to the UT Lands' Document Control System. The Reporting Control System is the mechanism to link the lease and well records. The mechanism is a "Reporting Control Record", whereby companies help the GLO establish what reports to expect, and to work in conjunction with the companies to keep the records current. Instead of reporting at the GLO State Lease level, companies will report at the combination GLO State Lease #/RRC ID level. [In this document, GLO Mineral File # and the GLO State Lease # are used interchangeably.]

The addition of a Reporting Control Record will allow the GLO to provide our customers access to a secure on-line portal with the ability to file their production reports (GLO-1/2s, which are "Royalty Due"), and to make remittance advices (GLO-3s, which are "Royalty Paid") online. In addition, the GLO-3 will be modified to allow you to move funds around without having to make a payment. Eventually, this system will also include Renewable Energy and Hard Mineral reporting. When customers log-in to this on-line portal, they will immediately see what reports are missing, if any, and will be able to select what reports they wish to file, based on production month and GLO State Lease #/RRC ID combination, and the Reporting Control record that companies have set up. This system will provide more timely notification of missing reports, thereby reducing or eliminating document penalties.

The rest of this document seeks to present the detailed changes that are taking place in order to support this implementation.

RRC Level Reporting



GLO Changes to GLO-1/2/3 Reporting



Production reporting on GLO-1/2s will be reported at the RRC ID level. For example, a GLO state lease has two gas wells and therefore two RRC Gas Well IDs on it. There will be a minimum of two GLO-2s filed each month, one for each RRC Gas Well ID on the lease. Two GLO-1s will also be filed if condensate is produced from these gas wells. If working interest owners are also filing for their portion of the royalties, they also will have to be registered in the Reporting Control System for the RRC Gas Well IDs they are reporting on.

In short, if a working interest owner and operator filed individual reports by state lease # before, each party will file individual reports at the RRC level after implementation.

All reports will be designated as "Gross Production/ Disposition Volume reports" or "Non-Gross Production/ Disposition Volume reports". By definition, a Gross Production/Disposition Volume report is required to account for all production and disposition volumes. A Non-Gross Production/Disposition Volume report will allocate royalty to individual GLO state leases. The Gross Production/Disposition Volume report will also allow for operator royalty volumes attributable to the GLO state lease.

The old Unit Reports that included volume production and dispositions have been eliminated. The old Tract reports have been eliminated and replaced with a methodology of each RRC being allocated to each GLO state lease within the unit.

Prior Period Adjustments/Amendments (PPA)

The amendment process will change as a result of RRC ID reporting. Currently, when a PPA is filed, the GLO requires the use of a document locator number (DLN) that identifies the report being amended. The existing system then replaces the current report with the new report. Under the new approach, the GLO is moving to a reverse and rebook process that more closely follows accounting convention. If a production report is to be amended, the reporting company files a reversal of the current report (the report being amended) and a new report with the correct information. Volumes and royalty calculations on the reversing report must be an exact opposite of the existing report. Customers and GLO staff will be able to see the full transactional history.

Additionally, as mentioned earlier, in response to industry feedback, GLO-3s with a zero net balance may be filed. For example, if a GLO-3 is filed and the funds are allocated to either the wrong GLO State Lease #/RRC ID combination or the wrong production year-month, customers will be able to file a GLO-3 and move funds to make the correction without being required to have a positive balance on the GLO-3. Therefore, it will not be necessary to wait until a regular payment in order to file an amended GLO-3. As before, a GLO-3 with a negative balance will not be allowed.



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Prior Period Adjustments/Amendments for Legacy data

This change may have a large impact for some customers. Post implementation, all reporting and PPAs will have to be filed on a RRC level basis. What this means is, if a report was filed before the new system is implemented and which had several RRC IDs rolled up to the GLO state lease level, and one of those RRC IDs needs to be amended, **the GLO will look for a reversal of the incorrect RRC ID and a rebooking of the correction on the same RRC ID.** It will not be necessary to file reversing reports and amended reports for each RRC ID rolled into the legacy report. If it is easier for the reporting company to reverse and rebook all of the RRC IDs individually, it will also be acceptable.

Using the earlier example of two gas wells on a single lease, we will assume the reporting has been rolled up to the GLO state lease level. After the switch to RRC level reporting, one of the RRC IDs needs to be amended for production numbers. This can be done by filing a report that reverses the volumes and royalty calculation for that RRC ID that was rolled up with the other RRC ID in the current report on file with the GLO, and filing a new report for that RRC level with the corrected numbers. Alternatively, if easier for the customer, both RRC IDs could be reversed individually and new RRC level reports filed. The goal is to keep all post-implementation data at the RRC ID level.



GLO Changes to GLO-1/2/3 Reporting



Table of Changes to the GLO-1/2/3

Field	GLO-1	GLO-2	GLO-3
Tract Number	Deleted	Deleted	N/A
Amended Report Ban	Deleted	Deleted	N/A
Amended Report Date	Deleted	Deleted	N/A
Amended Report Number	Deleted	Deleted	N/A
Sweet & Sour Grade percentage	Deleted	N/A	N/A
Amended Report	Deleted	Deleted	N/A
GLO In-Kind volume	Deleted	Deleted	N/A
Entitlement question	N/A	Deleted	N/A
Well Separation and Extraction Loss	N/A	Deleted	N/A
Type of Report	Changed	Changed	N/A
Tract Participation Factor	Added	Added	N/A
Original Report	Added	Added	N/A
Property Alias Name	Added	Added	*Changed
Override Code	Added	Added	N/A
Is this a sale to an affiliated entity	Added	Added	N/A
Report ID	Added	Added	N/A
Is this the Gross Production/Disposition Volume report?	Added	Added	N/A
Does the GLO Take Its Oil/Gas In-Kind	Added	Added	N/A
Drip Oil	Added	N/A	N/A
Comments	Added	Added	N/A
Does the GLO Take Its Gas In-Kind	N/A	Added	N/A
CO2	N/A	Added	N/A
H2S	N/A	Added	N/A
Flash Gas	N/A	Added	N/A
RRC Oil District and Lease #	*Changed	*Changed	Added
RRC Gas District and Well ID	*Changed	*Changed	Added
RRC Drilling Permit Number	Added	Added	Added
GLO-1/2 Reporting Company Customer ID	N/A	N/A	Added

- These fields are in the current GLO-1/2 reports; however, they were only used to identify the RRC Oil Lease #s and RRC Gas Well IDs within the GLO state leases and units. These fields were not subject to edits (for verification purposes) and were not used for reporting at that level.
- Property Payer Name changed to Property Alias Name on the GLO-3.



GLO Changes to GLO-1/2/3 Reporting





GLO Changes to GLO-1/2/3 Reporting



Field Additions and Reporting Changes Common to Both GLO-1 and GLO-2 Reports

- All reports will be at the RRC ID level:
 - Oil wells will be at the RRC Oil Lease # level, which could comprise one or more oil wells.
 - Gas wells will be at the RRC Gas Well ID level.
 - If the Railroad Commission has not yet assigned an RRC Oil Lease # or a RRC Gas Well ID, the Drilling Permit # will be used. Once the RRC ID has been assigned, the Drilling Permit # is dropped.
 - Reports required at the RRC level for each GLO State Lease within a Unit. This increases the number of reports that will have to be filed for GLO state leases and units with multiple RRC IDs.
- Tax id's will be replaced by GLO assigned Customer ID's as follows:
 - Reporting Company Customer ID replaces Reporting Company Tax ID.
 - Operator Customer ID replaces Operator Tax ID.
 - Royalty Payer Customer ID replaces Royalty Payer Tax ID.
- A field has been added to show the unit tract participation of the lease, and required on unitized reports. This provides clear documentation of royalty volume calculations allocated to each GLO state lease.
- A field "Original Report" has been added, which will identify the report as "Original" or "Amended."
- A field "Property Alias Name" has been added. An entry will not be required in this field. It may be used for reporting company identification purposes. The data in this field should be the same as the data in the same field on the GLO-3 report.
- A field has been added to identify sales to an affiliated entity. This enables the GLO to readily differentiate between arms-length and non-arms-length transactions for royalty valuation issues.



GLO Changes to GLO-1/2/3 Reporting



- Each report will be designated as a “*Gross Production/Disposition Volume report*” or “*Non Gross Production/Disposition Volume report*”.
 - This will allow efficient reporting of unitized leases, non-unit leases, split stream sales, multiple working interest owner reporting and allocations to multiple leases in a unit.
 - A *Gross Production/Disposition Volume report* must be filed for each RRC ID.
 - The *Gross Production/Disposition Volume report* will account for all production and disposition volumes for:
 - Non-Unit reports.
 - Unitized reports on the low numbered GLO state lease in the unit.
 - The *Non-Gross Production/Disposition Volume report* will only account for royalty dispositions and calculations attributable to the GLO state lease for:
 - Multiple marketing arrangements, with differing pricing (valuation).
 - Reports on unitized leases other than the low numbered GLO state lease in the unit.
 - Non-operators reporting their interest.
 - The *Gross Production/Disposition Volume report* will account for all production and disposition volumes.
 - The *Gross Production/Disposition Volume report* may also account for operator royalty volumes attributable to the GLO state lease.
 - The lessee or the assignee will be held responsible if 100% of the production and royalty bearing dispositions are not accounted for among all the reports filed on a RRC ID.
- A Comments field has been added. Completing this field is not mandatory – may be used to explain unusual reporting situations or to convey other pertinent information.
- Handling of amended reports will use a reverse/rebook strategy:



GLO Changes to GLO-1/2/3 Reporting



- Each report will be identified as an Original Report or not. If a report is not an original, it is called a Rebook if it contains the new correct information and a Reversal if it is reversing a previously accepted report.
 - Each original report will be assigned a unique “Report id” upon acceptance.
 - A reversing report showing negative volumes and royalty calculations will be submitted. This report must be the exact opposite of the original report or it will not be accepted. If the reversal is accepted, the original report will be marked as amended.
 - The new Rebooking report will be filed using the correct data. This will be a complete report and will be identified as amended.
 - As a convenience, the “Report Id” field has been added. If the report id is included in a Rebooking report the GLO will automatically create the Reversing report.
- A field “Override Code” has been added to allow the filing of reports outside the monthly reporting control record.
 - Used for unusual reporting situations such as:
 - One time oil sale.
 - Switch of purchasers during the middle of the production month.
 - Code will have to be approved by and obtained from the GLO prior to filing and may be used only once.
 - TIK Program Leases:
 - A field on each report will identify whether or not the lease is in the GLO TIK program.
 - For gas volumes subject to GLO’s In-Kind program, 100% of the transmission line volumes will be reported in the Disposition Volumes section.
 - No transmission line entries will be required in the Valuation Accounting section.



GLO Changes to GLO-1/2/3 Reporting



- Royalty will be calculated for lease use, vented and any other dispositions that require royalty to be paid in cash.
- For crude oil and condensate volumes, 100% disposition volumes will be subject to the GLO's In-Kind program will be reported on the GLO-1. No entry will be required in the Royalty Due Net Barrels field.
- Currently, the GLO In-Kind program does **not** include crude oil or condensate.
- **Actual delivered volumes to the GLO and balancing issues are not accounted for on the GLO-1 and GLO-2 reports. Those are handled with a separate TIK report administered by the GLO's State Energy Marketing Program (SEMP) group.**
- **The TIK designation on GLO-1 and GLO-2 reports has nothing to do with In-Kind arrangements among multiple working royalty interests.**

Field Eliminations Common to Both GLO-1 and GLO-2 Reports

- Tract number eliminated because unit and tract reports are being dropped.
- "Type of Report" field is changed, and all reports will be either non-unit or unitized reports.
- "Amended Report BAN" eliminated due to different handling of amended reports – reverse/rebook strategy. Also, the need to create a document locator number (DLN) has been eliminated.
- "Amended Report Date" eliminated due to different handling of amended reports – reverse rebook strategy. Also, no need to create a DLN.
- "Amended Report Number" eliminated due to different handling of amended reports – reverse rebook strategy. Also, no need to create a DLN.
- In-Kind Volume field eliminated, as it will be captured by separate TIK reports filed to the GLO's State Energy Marketing Program (SEMP).

Changes Unique to GLO-1 Report

- Fields eliminated:
 - Sweet and sour percentages.



GLO Changes to GLO-1/2/3 Reporting



- Field added:
 - Drip oil – volumes are significant, and cannot be identified with any of the current disposition codes.
- An entry of “Yes” in the “Does the Royalty Due Net Barrels represent the entire royalty obligation?” field means that there are no other reports or interest owners reporting on production or sales from this State Lease/RRC ID combination. An entry of “No” in this field means additional reports should be filed in order to account for 100% of the royalty obligation. The reports may be from other interest owners or the same owner accounting for different marketing arrangements.
- A *Gross Production/Disposition Volume* report will account for all production and disposition volumes from the beginning stock through the ending stock fields:
 - No entries allowed in these fields if report is designated as *Non-Gross Production/Disposition Volume* report.
- Royalty due calculations begin on the Royalty Due Net Barrels line.

Changes Unique to GLO-2 Report

- The GLO-2 volume reporting will be divided into three sections, Production Volumes, Disposition Volumes and Valuation Accounting.
 - If *Gross Production/Disposition Volume* report, production volumes must equal mcf disposition volumes.
 - If *Non Gross Production/Disposition Volume* report, production volumes and disposition volumes must be blank.
 - Royalty due volumes are reported in the Valuation Accounting section.
 - Only royalty bearing dispositions shown in this section.
 - *Gross Production/Disposition Volume* report or *Non Gross Production/Disposition Volume* report may have volumes in this section.
- Fields eliminated:



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- Well separation and extraction loss:
 - This disposition is no longer required on the GLO-2 report.
 - Matches RRC reporting requirements.
- The field “Are Your Volumes Based on Entitlements?” is eliminated.
- Fields added:
 - CO₂ - this field is created because it became necessary to account for CO₂ volumes. This disposition was previously included with vented/flared.
 - H₂S - this field is created because it became necessary to account for H₂S volumes. This disposition was previously included with vented/flared.
 - Flash gas production and disposition – volumes are significant, and cannot be identified with any of the current disposition codes.
 - The order of NGL’s has been changed. The butanes field has been eliminated and replaced by Normal Butane and Iso Butane.
 - An entry of “Yes” in the “Are you accounting for All (8/8ths) Royalty Bearing Dispositions” field means there are no other reports or interest owners reporting on production or sales from this State Lease/RRC ID combination. An entry of “No” in this field means additional reports should be filed to account for 100% of the royalty obligation. The reports may be from other interest owners or the same owner accounting for different marketing arrangements.

Field Additions and Reporting Changes to the GLO-3 Report

- GLO-3 reports will be at the RRC-level:
 - RRC ID field added.
 - Oil wells will be at the RRC Oil Lease # level, which could comprise one or more oil wells.
 - Gas wells will be at the RRC Gas Well ID level.



GLO Changes to GLO-1/2/3 Reporting



- If the Railroad Commission has not yet assigned a RRC Oil Lease # or a RRC Gas Well ID, the Drilling Permit # will be used. Once the RRC ID has been assigned, the Drilling Permit # should be dropped from usage and replaced by the RRC ID.
- Royalty will be allocated to each State Lease at the RRC ID level:
 - Each RRC ID within a Non Unitized lease must have an entry on the GLO-3
 - Each RRC ID in a unit will require an entry for each GLO state lease within the unit.
 - Multiple RRC IDs within a multiple lease unit will require significantly more entries on the GLO-3.
- Will require the GLO Customer ID in:
 - Royalty Payer Customer ID will replace Tax Payer ID
- The GLO-1/2 Reporting Company ID has been added. While designated as optional, it is strongly recommended that reporting companies use this in paying their GLO-3s or encourage their 3rd party payers to use it. This will assist in reconcilements of payments to GLO-1/2s and provide the reporting company a more complete online ledger as payments more easily matched to the lease, RRC # and GLO-1/2s.
- Property Payer Number /Comments field will be replaced with the Property Alias Name. The functionality of this field has not changed.
- GLO-3s with a zero net balance may be filed:
 - No longer necessary to wait for a regular remittance cycle to amend payments if the net result is 'no added payment is necessary.'
 - For instance, if a GLO-3 is filed with the incorrect GLO State Lease # or production year-month, customers will be able to file a GLO-3 that moves funds to the correct GLO State Lease # and/or production year-month.
 - Any amended payments resulting in a net balance greater than zero will have to be tied to a payment.